Aeries Technology

Fiscal Second Quarter 2024 Earnings Call

December 13, 2023

CORPORATE PARTICIPANTS

Daniel Webb, *Chief Investment Officer*

Sudhir Panikassery, *Chief Executive Officer and Co-Founder*

Rajeev Nair, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Jeff Martin, *Roth MKM*

PRESENTATION

Operator

Greetings and welcome to the Aeries Technology Fiscal Second Quarter 2024 Earnings Call.

(Operator Instructions)

As a reminder, this conference is being recorded.

With that, we'll begin today's conference call.

Daniel Webb

Good afternoon, and welcome to Aeries Technology's Second Fiscal Quarter 2024 Earnings call.

Joining us from the Company is Chief Executive Officer and Co-Founder of Aeries, Sudhir Panikassery, Chief Financial Officer, Rajeev Nair, and Chief Investment Officer, Daniel Webb.

Today's call will begin with scripted remarks, and then we'll open the call to participants for questions.

As a reminder, this conference call contains statements about future events and expectations which are forward-looking in nature. The statements on this call may be deemed as forward-looking and actual results may differ materially. For a full list of risks inherent to the business and the Company, please refer to the Company's SEC filings. Aeries undertakes no obligation to revise or update any forward-looking statements to reflect events or circumstances that occur after the call.

Today's call and webcast will include non-GAAP financial measures within the meaning of SEC regulation (inaudible). When required, reconciliation about non-GAAP financial measures to the most directly comparable financial measures calculated as a percent and is in accordance with GAAP can be found in the Company's website.

With that, I would like to turn the call over to Sudhir. Sudhir?

Sudhir Panikassery

Thank you, Operator. My name is Sudhir Panikassery, and I'm the CEO and Co-Founder of Aeries Technology. I would like to thank everyone for joining us here today on our first earnings call as the Company began trading on NASDAQ under the symbol AERT on November 8, 2023.

We are addressing what we believe is a greater than $1.420 billion TAM with an incredible LTV to CAC of approximately 15.9x for calendar year 2022. Today, we employ 1,600 professionals around the world and are adding to our already impressive talent pool. Rajeev Nair is an experienced public company executive who joined the Aeries team as CFO this month, as well as Daniel Webb, former CEO of Worldwide Web Acquisition Corp., who joins us as Chief Investment Officer and brings with him deep M&A and capital raising experience. You'll hear from them both on this call shortly.

For those who may be new to the story, Aeries Technology is a global professional services and consulting partner for businesses and stakeholders seeking a partner during (inaudible) periods of operation, including private equity sponsors and their portfolio companies. Aeries deploys distinctive custom tailored engagement models that are designed to cover the right mix of deep vertical knowledge, functional expertise and the right software and systems to help clients scale and optimize with tangible results that can be felt in organizations and seen on the bottom-line. The end result is a flexible bespoke engagement that can potentially produce up to 65 person labor savings versus hiring talent locally while bringing in tailored, emerging technology solutions to these businesses.

As a reminder, Aeries is profitable today and has operating cash flow positive since 2013, our second year of operation. To our understanding, before the founding of Aeries, there were two main-based (phon) to outsource tech-enabled services, neither of which were ideal for our target markets. The first was to use a legacy outsourcing vendor which provides the flexibility and labor cost savings that private equity firms and their portfolio companies are looking for but have a number of disadvantages These include a minimal ability to innovate due to a lack of strategic alignment and visibility into internal operations and outside mentality among those assigned to the account and the implementation time of strategic decisions which can be a major road block to a successful deployment of new solutions.

The second approach is to create a subsidiary overseas and in house the process, which largely solves many of the issues mentioned by outsourcing but presents a new set of very complicated challenges. While this approach succeeds in creating a team that is aligned with the goals and culture of the company, it is very costly to start and to scale. It creates a litany of tax (phon) integrated requirements and it eliminates the unique viewpoints that outside contractors working with multiple companies can bring.

Aeries solves these problems with our (inaudible) approach in which our operations are fully integrated into the business of clients. Our customers use our services to get top talent in India and across the world into all areas of their organization including software development, IT, cybersecurity, finance, HR, customer service and operations. Our customers will interview on higher (phon) candidates we source, set up day (phon) and bonus structures for the candidates and active guidance and collaboration with us and treat them as if they their own employees once they're hired. Our talent becomes an extension of a (inaudible) with opportunity for promotion, recognition and (inaudible) progression, resulting in higher employer satisfaction and lower accretion. We manage the regulatory paths (phon), recruiting, compliances, administrative, IT, and legal for the outsourced talent.

We believe this disruptive business model delivers overall cost and operational efficiencies with the ability to deliver digital transformation solutions tailor made for our customers' growth strategies, coupled with an inherent flexibility the arrangement offers our customers in evolving and implementing these strategies effectively. The purpose-built model is crafted to create a more flexible, more specialized and less expensive labor pool for a customer and a better work environment with more opportunities for the employees. We believe it creates significant innovation through strategic alignment and increased visibility at senior levels, it insulates our clients from regulatory and tax issues and it provides the flexibility to scale up or down as the business needs change. By utilizing proven business and implementation plans tried and true software and optimization support and the highest level of data integrity and compliance policies, we aim to ensure consistent quality results across our deployments and deliver significant value to leadership teams.

Our solution is designed to deliver all the benefits of alignment with our client goals with the visibility into winning playbooks from multiple companies that only Aeries can deliver. We are committed to our medium to long-term strategies on organic and inorganic growth with the clear objective of seeing us a significant player in the emerging tech-driven outsourcing industry with differentiated solution (inaudible) that are geared towards meeting the challenges our customers face in today's ever shortening business cycles. We believe we have today a strong, validated and referenceable foundation in terms of business model, differentiated service offerings and customer base. With a strong team, we are committed to our growth path and being a trusted partner to our customers.

Now, I'd like to hand the call over to Daniel Webb, Chief Investment Officer of Aeries Technology. Daniel?

Daniel Webb

Thanks, Sudhir.

My name is Daniel Webb, and as Sudhir mentioned, I joined Aeries in November after being CEO of Worldwide Web Acquisition Corp., a publicly traded company which took Aeries public. I spent over 10 years in investment banking at both Bank of America and Citi and three more as founder and CEO of WWAC. I'm thrilled to come on board as Chief Investment Officer of Aeries.

After having spent time evaluating many businesses in both my investment banking career and as potential target to take public, Aeries has stood out as a differentiated, positive growth business. A large part of this differentiation is our distinctive, purpose-built client engagement model. When we first with a client, our team gathers requirements, assesses existing infrastructure, processes and workflows and (inaudible) overall scope to recommend the best options to the client. This paves the way for us to start identifying and hiring the right Aeries team members to handle the initial deployment. From the start of the engagement, we begin implementing the solutions to fit the needs identified with our clients. Since, in many cases, our clients are newly acquired portfolio companies of private equity firms, there are multiple areas to build out, such as software development, IT, finance and operation.

The immediate effect of quickly scaling up these teams can have a positive impact on both the bottom-line and top-line for our clients. As our clients move through the lifecycle of their deployment with us, we layer in additional solutions, such as AI, analytics, cybersecurity, or other digital solutions based on the needs of our clients. Many of our clients come as references from private equity sponsors of our current clients, which helps accelerate our growth, as well as keeping sales and marketing costs low. Our goal is to become integral and essential for our clients operations, and with an average contract value of slightly over $2 million, we have seen success in reaching our goal.

We attribute our growth to our purpose-built model and the positive outcomes it delivers for our clients, which builds trust and confidence in leadership teams and leads to very high rates of referral with us. With an NPS of 93, we believe we are able to create a network effect within the executive leadership and BE com where we've built some new clients wins. We believe this network effect contributes to incredible results for our business, a business, as Sudhir mentioned, has an operating cash flow since 2013. For the second fiscal quarter, our revenues were up 38% year-over-year, and our Adjusted EBITDA was up 107% over the same period.

Now I want to hand the call over to Rajeev Nair, CFO of Aeries Technology, for detailed rundown of our second fiscal quarter and fiscal half numbers.

Rajeev Nair

Thank you, Daniel, and thanks again for joining the call with us today on our first earnings call.

I will now walk through our second quarter and first half numbers in more detail.

Our total revenues for the second quarter were $17.6 million, which was an increase of 38% year-over-year. On a first half basis, we generated $33.9 million for the six months ended on September 30, 2023, which was an increase of 34% versus the year prior period.

Our gross profit for the second quarter was $4.8 million, which was an increase of 44% year-over-year, and resulted in gross margin of approximately 27% versus 26% in the year prior period.

On a first half basis, gross profit increased by 32% to $9.3 million for the six months ended September 30, 2023, which resulted in a gross margin of approximately 27% versus 28% in the year prior period.

Our SG&A for the second quarter were $3.3 million, which was a decrease of 11% year-over-year from $3.8 million.

On a first half basis, the SG&A was $7 million, which was an increase of 19% from $5.9 million in the year prior period.

We generated operating income of $1.5 million in the second quarter, which was an increase compared to an operating loss of $420,000 in the prior year period.

On a six month basis, operating income was $2.3 million, which was a 92% increase year-over-year.

On the bottom-line, our net income for the second quarter was $926,000, which was an increase of—from a net loss of $222,000. On a six month basis, the net income was $1.4 million for the period ending September 30, 2023 versus a net income of $1.1 million in the year prior period. This resulted in Adjusted EBITDA for the second quarter of 2024 of $2.9 million, an increase of 107% year-over-year from $1.4 million.

On a first half basis, we generated Adjusted EBITDA of $5.8 million for the six months ended September 30,2023, an increase of 71% compared to $3.4 million in the year prior period.

Finally, I wanted to give our finance outlook for the calendar year 2024.

As we mentioned in our press release on Monday, we are currently expecting a total revenue of between $95 million to $105 million for the year, and an Adjusted EBITDA of between $16 million and $20 million.

Thank you all for joining the call, and with that, I would like to ask the Operator to open the line for questions. Operator?

Operator

Thank you.

(Operator Instructions)

Our first question comes from Jeff Martin from Roth MKM. Please proceed.

Jeff Martin

Thanks. Good morning. I wanted to get a sense of some of the assumptions embedded in your 2024 guidance. First of all, I want to clarify that's a calendar year projection. Two, are you planning to move to a calendar year reporting period? Starting off with some of the assumptions, what are the new logo assumptions for 2024 and what sort of revenue do you expect contribution from those new logos versus growth from existing logos?

Sudhir Panikassery

Rajeev, if you want to take that question?

Daniel Webb

Yes, thanks for the question. I think, Rajeev, do you want to take the first question?

Rajeev Nair

Sure. The first part I can answer that this is for the calendar year 2024 guidance. For now, we still plan to continue with the fiscal year year-end we have, which is the March 31. But in the future, we may move to a calendar, but the U.S. calendar year, but that is not immediately planned.

Jeff Martin

Your guidance for calendar—calendar '24 guidance, is that correct?

Rajeev Nair

That's correct, yes.

Jeff Martin

Okay.

(Multiple speakers)

Rajeev Nair

Sixteen to twenty is for the calendar year, yes.

Jeff Martin

Right. What are some of the new logo assumptions embedded in that guidance?

Rajeev Nair

Sudhir, do you want to take that or shall I go ahead?

Sudhir Panikassery

Yes, you can go to the detailing but very broadly, I would say that the bulk of the revenue will come from the carryover from the logos that we have acquired in the past one to one-and-half years. Those are expanding. As you know, we have set up a sales marketing team, unlike earlier. This was largely through reference and contacts and networks and the private equity and to the management connections, etc. We have a very focused sales marketing team that's in place now. We expect that the new logos should contribute between 15% to 20% of the revenues, and then will accelerate as we move ahead.

Jeff Martin

Thank you. Acquisitions are a part of your strategy going forward. Was just curious, I think you outlined the strategy and what kind of timing and then sources of capital to execute that strategy.

Sudhir Panikassery

Yes. As far as the sales marketing team is concerned, it's already in place. We will not need any additional significant capital outlays for that aspect. That'll carry on at the moment that we have now. The teams are working hard with very focused approach towards our traditional focus areas of private equity. There's a very focused approach towards private equity relationships and accelerating the connections over there and networks.

The second is we are also actively mining the significant private equity relationships we have currently and with the intent to expand within their existing portfolio companies.

These two are ongoing processes, and I would say that the next three to five years will be a growth phase for us. That is our strategy. We will be a growth company and we'll continue to be that until we reach a size that we are satisfied with respect to stabilizing, and from then onwards it'll be driven by innovation and active dynamic client mining and so on and so forth, so to be a significant player.

Daniel Webb

Sudhir, do you want me to take the M&A question?

Sudhir Panikassery

Sure.

Daniel Webb

On the M&A front, we're actively always looking at targets and that's a key part of our go-forward strategy is to find profitable, strong targets where we think there's significant synergies where we see the real ability to get companies at great multiples and get them included into our platform very quickly. We think that the financing strategy will be depending on the size of the company. The business is profitable, essentially has no debt today so we have significant ability to go out and finance with debt. Now that we're a public company, obviously, there's the opportunity to do equity raises or convertibles. Really depending on the size of the target and where we are in the stage of our Company, then any of those options could be there for financing.

Jeff Martin

Great. One more, if I could. In terms of client progression, maybe help characterize when a new client comes on what type of services you do and as they progress how that service set expands into more complex technologies and more productivity oriented technologies.

Sudhir Panikassery

Yes. Typically, our contract in a fully mature condition goes through four phases, four stages. Stage one is where we initiate the arrangement with the client and typically we evaluate the entire organization's every function without exception, and then slot them into basically three categories. Those functions which are enabled to outsourcing; second those functions which are enabled to workflow improvements, process improvements; and lastly, those functions which are enabled to adoption of new age technology solutions, automations and so on and so forth.

Typically, what we observed in the last decade or so of our operation is that it usually starts with the low hanging fruit, so to speak, which is cost efficiency and outsourcing. Transition from high cost to low cost geographies. That is always the starting point we are seeing.

In stage two, as we ramp up the operations in the low cost geography, the Company sees savings coming in, efficiencies coming, process improvements flowing in. It then moves into the second phase of expansion between multiple other functions within the organization, which are enabled to offshoring outsourcing.

Based on the learnings, we then move to stage three, which is identifying very clearly potential solutions for automation, process improvements, business systems improvements, cloud migration, and so on and so forth, adoption of new age technology solutions. It eventually matures into a combination of outsourcing under a differentiated engagement model, coupled with digital transformation activities that actually help the client upgrade themselves on the technology front.

This is how typically a contract in its maturity, full maturity cycle moves in four phases.

Jeff Martin

Great. Thanks for taking my questions.

Rajeev Nair

Jeff, if I can add to what Sudhir said. We are seeing significant network effect in terms of the new customer acquisitions. For example, in 2023, we signed 10 new customers, which is a significant increase from an average number of customers, which used to be four to five in a year. We are seeing significant traction from our existing client referrals and testimonials, and being a public company, we think this will really accelerate the further journey with new logo acquisitions. We're also seeing a trend from our existing customers because we have been working with them for the last couple of years with a strong relationship, we are also seeing a trend in terms of more value added services, like digital transformation and more (inaudible) work which will improve our margins in the next calendar year.

Jeff Martin

That's helpful. Thank you.

Operator

(Operator instructions)

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.